



LIGHTNING ROUND

JUNE 2017

CALENDAR OF EVENTS

JUNE 16-21

APPA National Conference
Orlando, FL

JULY 20

KPP Board Meeting
Wichita, KS

AUGUST 3

Power Supply Meeting
KMU McPherson, KS

AUGUST 17

KPP Board Meeting
Wichita, KS

SEPTEMBER 29

KPP Board Meeting
Wichita, KS

SEPTEMBER 29 & 30

KPP Fall Planning Retreat
Wichita, KS

OCTOBER 19

KPP Board Meeting
Wichita, KS

NOVEMBER 2

KPP Board Meeting
Wichita, KS

NOVEMBER 16

KPP Board Meeting
Wichita, KS

(CONTINUED ON NEXT PAGE)

Bond Refinancing Under Consideration

A savings of more than \$400,000 is contemplated on KPP's first bond debt issued in 2012 due to a potential re-finance of a portion of that debt. Last week the KPP Board of Directors approved a Resolution authorizing formal consideration of a bond advance refunding. KPP financial advisor, John Haas, of Ranson Financial Group, addressed the Board assisted by KPP General Counsel, JT Klaus.



See **BOND REFINANCING** on page 3

Upcoming Discussions on Community Solar and Power Supply Study



August 3rd is the date of the next KPP Power Supply meeting. The location is once again the KMU Training Center in McPherson.

When KPP members met in late March, an initiative was approved to seek a preliminary study in preparation to adding more generation resource. It is expected that the findings of that study will be presented to the members on Aug 3rd. The study has been undertaken by Tenaska Power Services – KPP's contract facilitator on resource management.

See **COMMUNITY SOLAR** on page 2

**CALENDAR OF EVENTS
(CONTINUED)**

DECEMBER 15
KPP Board Meeting
Wichita, KS

DECEMBER 15
KPP Annual Meeting
McPherson, KS

GENERAL MANAGER MESSAGE

Why Attracting New Members to KPP is not Necessarily a Priority

By Mark Chesney, KPP CEO/General Manager



Sometimes in my visits to city council (commission) meetings, I am occasionally asked to what extent KPP is engaged in attracting new members. Honestly, it's a good question. It reflects the very traditional assumption felt in the market of commerce. In a moment, I'll tell you my answer to that question.

A few years ago, we set about to secure a new *line of credit*. We had a \$1 million LOC with Corner Bank in Winfield. The bond rating agencies had made it clear to us that, among other things, getting an increase in our bond rating would require having a line of credit from a recognized bank. You may recall that we took nearly one year to secure a \$6 million LOC with Bank of the West. By the way, we have never used this LOC and probably never will. Regardless, it helped us get an upgrade on our bond rating to A3 and that is something we take a lot of pride in. It is something which Piper Jaffray says lowered our 2015 bond borrowing cost by nearly \$400,000. That lowering will also be reflected in every subsequent transaction we do in the future.

See **GENERAL MANAGER** on page 3

COMMUNITY SOLAR (continued from page 1)

At the June meeting of the KPP Board, CEO/GM Mark Chesney indicated his intention to open a discussion at the August 3rd meeting about community solar. He reported to the Board the Staff's recent discussions with various engineering and development firms adding that now might be a good time to advance the discussion to the entire KPP membership. Chesney also indicated that these power supply discussions should nicely set the stage for possible strategy approvals at the Fall Planning Retreat on September 29th and 30th.

All KPP member representatives are encouraged to be present on August 3rd. Special invitations are also extended to any other city officials or personnel. The meeting will commence at 11:00. ■

You may contact Carl Myers no later than July 28 by phone (316.264.3166) or by email (cm Myers@kpp.agency) to RSVP for the lunch.



BOND REFINANCING (continued from page 1)

Under consideration was the opportunity to refinance only a portion of the KPP 2012 Series A bonds. The 2012 A bond issue was the original debt in the approximate amount of \$29 million issued for the purchase of KPP's portion of the Dogwood combined cycle plant. Haas explained that, according to the IRS tax code, there is an opportunity to refinance a portion of the 2012 Series A issuance at a lower interest rate with an advance refunding of less than \$10 million as bank qualified bonds in 2017. In introducing the term "bank qualified bonds", he explained that



the tax code allows banks to deduct their carrying cost of tax-exempt municipal bonds for the purchase of bonds from a qualified small issuer, which would allow them to offer a lower interest rate as the purchaser of KPP's bonds. This would translate to an interest expense savings for KPP on the portion of the bonds refunded over the remaining term of the debt. The "advance" part of the refunding uses the proceeds from the new bond issue to defease, or retire, the portion of the original bonds that is refunded at the time they are callable (payable) in the future. Klaus explained that the issuance contemplated would not technically create additional debt; the money would simply be placed into escrow, earning interest, to pay off the "called" bonds when they are callable. Although the original debt carries through to 2032, these bonds are callable in 2020.

KPP's bond underwriter, Piper Jaffray, has estimated that the net savings to KPP is slightly more than \$400,000 depending on the interest rate to be captured at the time of closing. The Resolution adopted by the Board authorizes the parties involved to proceed subject to final review and approval by the Board of Directors. The Resolution also requires that a net cash savings be no less than 3.5 percent of the refunded bond issue to proceed with the new bond issue. ■

GENERAL MANAGER (continued from page 2)

Anyway, the bankers (also) wanted to know how we are going about "increasing market share" as they put it. "It's not a priority", I said. This drew a big-eyed look. Actually, my memory is the banker tilted his head to one side and raised his eyebrows.

You see, when KPP members have each aligned themselves to one another in a long-term contract, bringing in a new member has the effect of diluting each member's equity in fixed assets. This is equity they hold through KPP. So, unless some negotiated arrangement is made in advance, a new member's entry into KPP would create a financial windfall for that city. I think that now, more than ever, we are all going to be on our guard about any future terms and conditions for a new member entry.

But there is more, and this additional point also relates to our effort to upgrade our bond rating. In 2012, soon after KPP did its first bond issue, we had an "expense days covered" of around 50. That is to say, if everything came to a screeching halt, how many days could we continue to pay the bills? This financial metric is the same as for your city. In late 2012, ours was around 50. Today, it is just slightly above 120 (even without the LOC!). The point is, when a new member comes in, that number immediately decreases on Day One unless the size of the city makes it basically negligible. Once again, some special negotiation may mitigate that. But, even existing members tell us that the thought of buying their way into the Pool is not attractive.

So, if a City wants to join KPP, we will certainly listen. It would be nice if they could bring a great load factor or some other measurable benefit to our entire group. In the meantime, our Staff is devoted to helping members stay healthy, competitive and fortified with a solid power supply. ■

Things You Might Like to Know

- ◆ Chris Komarek was permanently appointed to the position of Ellinwood City Administrator by the Ellinwood City Council. Congratulations to Chris!
- ◆ KPP staff demonstrated a utility pole testing drill the past two weeks. The KPP Board wants to know if the member utilities would use the drill if purchased by KPP. KPP staff will survey members to determine the level of use. To view a video of the operation of the drill and the digital readout, go to the following YouTube address:

<https://www.youtube.com/watch?v=-QuVISq3QP0>
- ◆ KPP has purchased a quantity of 60-Watt equivalent LED light bulbs. These are rated at 2700K, use 8.5 Watts, and are non-dimmable. KPP member utilities may purchase the bulbs from KPP for \$0.94 per bulb, which is half of the discounted price from Kriz Davis. KPP makes the bulbs available for utilities to promote the cost savings to retail customers and lower utility demand cost. The bulbs are available while supplies last.
- ◆ The City of Kingman is currently hiring an Electric Lineman. The Electric Lineman performs skilled work of journeyman level in the construction, maintenance and repair of overhead and underground 12.5KV electric distribution power lines, protection equipment metering and other electrical equipment.

Minimum qualifications include graduation from high school or have obtained a GED. Prefer applicant has completed a 4 year apprentice or merchant program. Requires a valid Kansas Commercial Driver's License (CDL) and a good driving record.

The City of Kingman is an equal opportunity employer. Any applicant/employee with a disability as defined in the Americans with Disabilities Act may request an accommodation to perform the functions of this position. A complete job description can be obtained by contacting the City of Kingman at 620-532-3111. Please apply online at www.hrepartners.com

Save the Dates for KPP's Fall Planning Retreat

KPP will again host its Fall Planning Retreat in Wichita this year. In what has become a KPP tradition, this year's event will be the 4th annual Retreat involving all KPP members. The dates for this year's Retreat are September 29th and 30th.

Twice held in the Kansas City area, response to last year's event in Wichita was quite positive. Meetings and lodging will again be centered at the Hotel at Old Town in Wichita with sessions across the street at the hotel's Conference Center. Although the agenda and Retreat outline is still being finalized, plans will include spouse activities as has also become traditional. Power supply planning will likely be the center topic to be accompanied by breakout or roundtable sessions.

KPP will renew its offer instituted last year of covering the expenses of lodging and meals for 3 representatives of each city (spouses also included). As many representatives prefer to check-in on Thursday, the first general session is expected to commence at 11:00 AM on Friday.



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